ECONOMIC UPDATE

REGIONS

January 18, 2024

December Residential Construction: No Late-Year Lift For Single Family

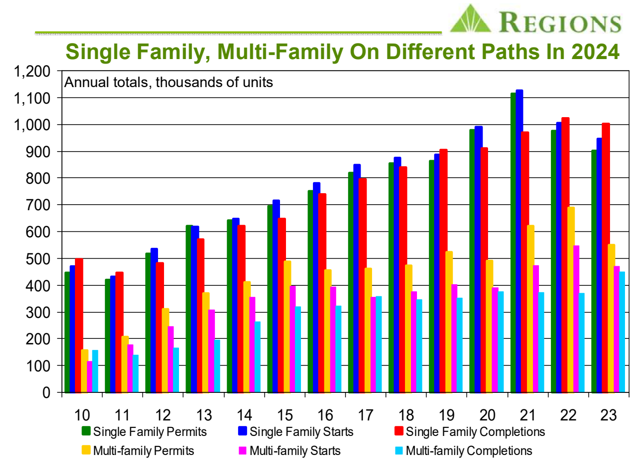
- Total housing starts fell to an annualized rate of 1.460 million units; total housing permits rose to an annualized rate of 1.495 million units
- Single family starts fell to 1.027 million units and single family permits rose to 994,000 units (seasonally adjusted annualized rates)
- Multi-family starts rose to 433,000 units and multi-family permits rose to 501,000 units (seasonally adjusted annualized rates)

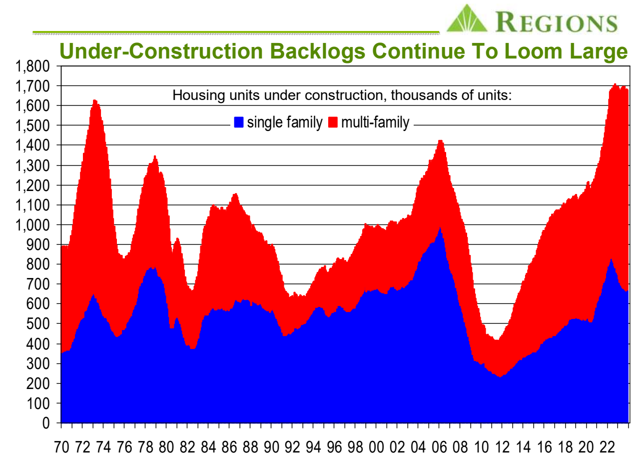
Total housing starts fell to an annual rate of 1.460 million units in December, topping the consensus forecast but falling well short of our forecast of a rate of 1.557 million units, while total housing permits rose to an annual rate of 1.495 million units, easily ahead of the consensus forecast and closer to our forecast of a rate of 1.516 million units. In most cases in which our forecasts for residential permits and starts are off the mark, particularly as widely as with the December data, the culprit is the multi-family segment, which seems to enjoy mocking us with its flighty and capricious nature. In this instance, however, our miss on housing starts is entirely due to the single family segment, as the annualized rate of 433,000 multi-family starts matched our forecast. As for our call on single family starts, we anticipated the not seasonally adjusted data to show a decline in December but expected this decline to be smaller than the typical December decline and thus translate into a healthy increase in the seasonally adjusted data. Instead, the 17.5 percent decline in unadjusted single family starts was much larger than the typical December decline, such that not even friendly seasonal adjustment could salvage it. While the drop in mortgage interest rates over the final weeks of 2023 helped improve builders' moods and also generated more interest amongst prospective buyers, that made no impression on the December construction data. We think that will come, however, particularly with commentary from builders indicating a sharp pick-up in demand in the early weeks of 2024. So, while we clearly missed on our forecast of December starts, we haven't altered our broader view that 2024 will see further increases in construction and sales of new single family homes. At the same time, we continue to expect further declines in multi-family permits and starts in 2024 as the pace of completions further picks up from a persistently slow pace.

On a not seasonally adjusted basis, there were 101,200 total housing starts in December, falling short of our forecast of 109,700 units. As noted above, single family starts, at 69,900 units, fell well short of our forecast of 78,000 units. Single family starts were surprisingly strong in November, outdistancing single family permits by the largest margin since October 2006 (monthly changes in the unadjusted data), which we attributed to builders concentrating on paring down sizable backlogs, and the sharp decline in single family unit permitted but not yet started seemed to align with our premise. Those backlogs, however, remain substantial which, coupled with the drop in mortgage rates, we expected to support December starts. That clearly did not happen. Even more curious, however, is that single family permits also tumbled, falling by 7.0 percent in December, while at the same time the backlog of single family units awaiting starts didn't budge. Again, though, we do not see this as anything more than the monthly data not moving in straight lines, particularly given the further declines in mortgage interest rates thus far in 2024 and the recent jumps in applications for purchase mortgage loans. In total, the not seasonally adjusted data show 105,400 housing units permitted in December, short of our forecast of 114,700 units, with single family entirely accounting for our forecast miss.

There were 1.413 million housing units started in 2023, down nine percent from 2022, with single family starts down by 6.0 percent and multi-family starts down by 14.4 percent. There were 1.453 million housing units permitted in 2023, down 12.8 percent from 2022, with single family permits down 7.5 percent and multi-family permits down 20.2 percent. At the same time, the 1.453 million units completed in 2023 reflects an increase of 4.5 percent over 2022, but this is entirely due to multi-family completions rising by 22.2 percent, thus offsetting a 1.9 percent decline in single family completions.

Put that jump in multi-family completions in context, however, as it came off of what for years had been a notably slow pace of completions in the multi-family segment. Moreover, even with steep declines in multi-family permits and starts, the backlog of multi-family units under construction ended 2023 at 998,300 units, the first time this count was below one million units since April. We think this will be the multi-family story in 2024, i.e., a faster pace of multi-family completions still leaving a sizable under construction backlog that will weigh on starts. That will be accompanied by higher single family permits, starts, completions, and sales, with a lift from lower mortgage rates.





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